

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-01 OMB-01 CEA-01 L-02 H-01 PA-01

PRS-01 USIA-06 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00

XMB-02 OPIC-03 LAB-04 SIL-01 AGR-05 /085 W

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R 281545Z FEB 75

FM AMEMBASSY MANAGUA

TO SECSTATE WASHDC 6363

INFO AMEMBASSY GUATEMALA

AMEMBASSY SAN JOSE

SAN SALVADOR 782

AMEMBASSY TEGUCIGALPA

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EO 11652: N/A

TAGS: ETRD, ECIN, XK, NU

SUBJECT: NICARAGUAN RESTRICTIONS ON IMPORTS OF SENSITIVE
ITEMS FROM EL SALVADOR AND GUATEMALA

REF GUATEMALA 1060; SAN SALVADOR 0785

SUMMARY: NICARAGUAN RESTRICTIONS ON IMPORTS OF SENSITIVE
ITEMS--TWXTILES, SHOES AND CLOTHING--FROM GUATEMALA AND
PRINCIPALLY EL SALVADOR HAVE CREATED TENSION WITHIN CACM
AND MAY BE LEADING TO RETALIATION AND EVENTUAL SERIOUS DAMAGE
TO REGIONAL INTEGRATION. SOURCE OF PRESSURE RESTRICTING
THESE IMPORTS IS THE INDUSTRIAL SECTOR HERE WHICH FEELS THAT
EL SALVADOR HAS VIOLATED FUNDAMENTAL PRINCIPLES OF REGIONAL
INDUSTRIALIZATION POLICY AND IS NOW INVADING NICARAGUAN MARKETS
WITH SUBSIDIZED TEXTILES FROM PLANTS DESIGNED TO PRODUCE
FOR AND COMPETE IN WORLD MARKETS. TEXTILE PRODUCERS BELIEVE
THEIR SURVIVAL REQUIRES PROTECTION FROM THESE IMPORTS.
END SUMMARY.

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1. NICARAGUAN CHAMBER OF INDUSTRY HAS REACTED TO CHARGES FROM EL SALVADOR THAT IMPORT RESTRICTIONS ON SENSITIVE ITEMS VIOLATES COMMITMENT TO FREE TRADE UNDER CACM. IN LETTER TO MINISTER OF ECONOMY, CHAMBER STATES THAT TEXTILE PRODUCTION HAS BEEN RECOGNIZED SINCE SECOND MANAGUA PROTOCOL IN 1967 AS ESSENTIAL INDUSTRY AND THAT PRESENT SITUATION IS OUTCOME OF FAILURE OF GUATEMALA AND EL SALVADOR TO ABIDE BY PROTOCOL.

2. ECONOFF MET WITH CHAMBER EXECUTIVE SECRETARY DR. ROBERTO SOLORZANO MARIN TO DISCUSS THE POSITION OF NICARAGUAN TEXTILE INDUSTRY IN THIS DISPUTE. SOLORZANO DESCRIBED PROBLEM AS PRE-EXISTING THE CACM, WITH GUATEMALA AND EL SALVADOR INDUSTRIALIZING AT EXPENSE OF HONDURAS IN TRIPARTITE AGREEMENT. INDUSTRIALISTS IN NICARAGUA OPPOSED ENTERING INTO CACM UNTIL IT WAS FIRMLY ESTABLISHED THAT BALANCED INDUSTRIAL DEVELOPMENT OF ALL COUNTRIES WAS FUNDAMENTAL AND BASIC PRINCIPLE. A MAIN INSTRUMENT WAS AGREEMENT ON HARMONIZATION OF FISCAL BENEFITS FOR INDUSTRIAL INVESTMENTS. INSTRUMENT WAS TO COME INTO EFFECT WHEN RATIFIED BY ALL MEMBERS AND EL SALVADOR BETRAYED AGREEMENT BY REFUSING TO DEPOSIT RATIFICATION FOR SEVEN YEARS, DURING WHICH EL SALVADOR AND GUATEMALA GREATLY INCREASED THEIR INDUSTRIAL PREDOMINANCE VIS-A-VIS THE REST OF CACM.

3. IN 1967, SECOND PROTOCOL OF MANAGUA RECOGNIZED TEXTILES AS ESSENTIAL INDUSTRY IN ECONOMIC AND SOCIAL DEVELOPMENT OF MEMBER COUNTRIES. THAT AGREEMENT PLACED LIMITS ON GROWTH OF COTTON TEXTILE PLANTS. GUATEMALA AND EL SALVADOR VIOLATED BASIC PREMISE OF AGREEMENT BY MASSIVE INVESTMENTS IN SYNTHETIC TEXTILE PLANTS UNDER PRETEXT AGREEMENT ONLY CONCERNED COTTON TEXTILES. THIS IS STRONGLY RESENTED BY NICARAGUAN INDUSTRY WHICH BELIEVED AT TIME AND NOW THAT BASIC PRINCIPLE WAS THAT TEXTILES AS LABOR INTENSIVE AND LOGICAL FIRST STEP IN INDUSTRIALIZATION WAS SINGLED OUT FOR SPECIAL TREATMENT. SHIFT TO SYNTHETICS DOUBLY SENSITIVE AS IT MEANS A DEPENDENCE ON IMPORTED RATHER THAN REGIONAL RAW MATERIAL AND WOULD HAVE RECEIVED EVEN STRONGER RESTRICTIONS IF CONSIDERED A POTENTIAL PROBLEM AT TIME OF PROTOCOL.

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4. WHEN EL SALVADOR THROUGH ITS OWN MISADVENTURE IN 1969 LOST HONDURAN MARKET IT DIRECTED ITS SALES TO NICARAGUA AND COSTA RICA. SO-CALLED BALANCED DEVELOPMENT IN TEXTILES BECAME A TOTAL DISTORTION AS LOCAL INDUSTRIES UNABLE TO COMPETE WITH MASSIVE IMPORTS. AFTER TWO YEARS, COSTA RICA REACTED AND IN FACE OF EMBARGO MEETING OF ECONOMIC MINISTERS AGREED ON FIXED EXPORT QUOTAS FOR SENSITIVE ITEMS TO NICARAGUA AND COSTA RICA.

5. FOLLOWING MANAGUA EARTHQUAKE, MINISTERS AGREED TO LIMIT EXPORTS TO NICARAGUA TO PERMIT LOCAL INDUSTRY TO RECOVER MARKETS. TEXTILES WERE SEPARATE PART OF AGREEMENT AND 1971 QUOTAS WERE CONFIRMED. CHAMBER BELIEVES TRYING TO TIE SENSITIVE ITEMS TO EARTHQUAKE AGREEMENT A DELIBERATE PLOY BY EL SALVADOR AS IT IS VERY CLEAR THIS WAS PROBLEM ANTEDATING DISASTER AND WAS NOT TRANSITIONAL AS THE CASE OF GENERAL IMPORTS.

6. IN 1973, BECAUSE OF LOSS OF INVENTORY, NICARAGUAN GOVERNMENT IGNORED QUOTAS AND ALLOWED TEXTILES TO FLOOD IN. INDUSTRY WHICH HAD BEEN REDUCED 50 PERCENT IN CAPACITY BY DISTRUCTION ACQUIESCED AS THEY FELT UNABLE TO SUPPLY DEMAND FOR THESE ESSENTIAL PRODUCTS. TEXTILE IMPORTS ROSE \$7 MILLION OVER 1972. AT END OF 1973, HOWEVER, MARKET SURVEYS INDICATED INVENTORIES WERE REBUILT AND IMPORTS AND LOCAL PRODUCTION WERE COMPETING HEAD ON. INDUSTRY ASKED GOVERNMENT TO ENFORCE QUOTAS.

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R 281545Z FEB 75

FM AMEMBASSY MANAGUA

TO SECSTATE WASHDC 6364

INFO AMEMBASSY GUATEMALA

AMEMBASSY SAN JOSE

AMEMBASSY SAN SALVADOR

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7. IN SEPTEMBER 1974, TEXTILE IMPORTS WERE ALREADY \$10.5 MILLION OVER 1973 AND LOCAL PRODUCERS WERE DESPERATE. GOVERNMENT AGREED TO STOP FURTHER IMPORTS BUT THROUGH SPECIAL LICENSES ANOTHER \$.5 MILLION ENTERED BY END OF YEAR.

8. SITUATION IN 1975 ACCORDING TO CHAMBER IS CRITICAL. THROUGH OWN POLICIES, EL SALVADOR AND GUATEMALA HAVE BUILT CAPACITY FOR WORLD MARKETS WHICH ARE NOW CLOSED. IN ITS OWN INTEREST EL SALVADOR WANTS TO DUMP THIS SURPLUS PRODUCTION ON NICARAGUA AND THROUGH DEVICES SUCH AS 6 PERCENT EXPORT CREDITS IS SUBSIDIZING TEXTILE EXPORTS. NICARAGUAN TEXTILE INDUSTRY IS STILL PRODUCING LESS THAN PRE-EARTHQUAKE BUT BECAUSE OF IMPORTS FINDS INVENTORIES STEADILY INCREASING. UNLESS PROTECTED, THESE INDUSTRIES WILL COLLAPSE.

9. WHILE CLAIMING NO CONNECTION WITH TEXTILE DISPUTE, EL SALVADOR HAS PUBLISHED DECREE ALLOWING CASE BY CASE APPROVAL OF DUTY-FREE IMPORTS OF RAW MATERIALS FROM OUTSIDE CACM. CHAMBER REGARDS THIS AS DIRECT THREAT TO NICARAGUA LIMITED OFFICIAL USE

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AND POLICY OF INTEGRATION INDUSTRY UNDER WHICH PVC, CAUSTIC SODA, AND INSECTICIDES ARE PRODUCED FOR CACM IN THIS COUNTRY. CHAMBER IS FOR INTEGRATION BUT ONLY UNDER ITS ORIGINAL POLICY OF BALANCED INDUSTRIAL DEVELOPMENT. NICARAGUA IS CACM CONSUMER COUNTRY HAVING 1974 REGIONAL DEFICIT OF APPROXIMATELY \$45 MILLION AND \$190 MILLION DEFICIT SINCE 1960. THROUGH ITS WORLD EXPORTS, NICARAGUA HAS BEEN PAYING FOR INDUSTRIALIZATION OF SURPLUS CACM COUNTRIES.

10. SHOES AND CLOTHING ARE SEPARATE PROBLEMS MORE APPLICABLE TO COSTA RICA WHICH ADDED THEM TO TEXTILES AS SENSITIVE THAN TO NICARAGUA WHERE THESE INDUSTRIES ARE SMALL AND ARE NOT NOW IN TROUBLE.

11. CHAMBER IS CRITICAL OF GON NEGOTIATORS NOT MAKING THE STRONG CASE FOR NICARAGUA'S POSITION WHICH THE INDUSTRIALISTS BELIEVE EXISTS. SOLORZANO BELIEVES POSTURING OF EL SALVADORANS IS DANGEROUS AS ECONOMIC REALITIES WILL NOT PERMIT NICARAGUA TO RESTORE FREE TRADE IN TEXTILES AND IN WAR OF RETALIATION NICARAGUA WOULD BE FAR LESS DAMAGED THAN OTHER MEMBER COUNTRIES. HE SAID A SERIOUS DISCUSSION OF THE TEXTILE ISSUE AND AN AGREEMENT PROTECTING THE INTERESTS OF ALL COUNTRIES ARE NEEDED. HE SAID THAT EVEN GUATEMALAN INDUSTRIALISTS PRIVATELY CONCEDE NICARAGUA'S CASE BUT EL SALVADOR APPARENTLY SEEKS INSTANT GRATIFICATION EVEN AGAINST ITS OWN LONG-TERM INTERESTS.

12 DURING CONVERSATION, SOLORZANO RECEIVED CALL FROM MINISTER OF ECONOMY WHO SAID SALVADORANS WERE COMING

TOMORROW (FEBRUARY 28) TO DISCUSS SENSITIVE ITEMS AND WHAT SHOULD HE TELL THEM. SOLORZANO SUGGESTED MINISTER GIVE THEM GOOD LUNCH, TAKE THEM TO A NIGHT CLUB AND ADVISE THEM TO RETURN IN TEN DAYS WHEN CHAMBER WILL HAVE COMPLETE STUDY FOR GON. AFTER HANGING UP, SOLORZANO COMMENTED THAT THIS DEMONSTRATED BASIC PROBLEM, GOES ACTED AS MOUTHPIECE PRIVATE SECTOR INTERESTS WHEREAS NICARAGUAN INDUSTRY ONLY CONSULTED AT LAST MINUTE.

13. COMMENT: IF AS CLAIMED BY SOLORZANO, SURVIVAL OF NICARAGUAN TEXTILE INDUSTRY REQUIRES PROTECTION AGAINST REGIONAL IMPORTS, IT IS MOST UNLIKELY GON WILL BACK OFF FROM LIMITED OFFICIAL USE

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QUOTAS. IF CACM IS TRULY THREATENED BY THIS ISSUE, NEGOTIATION OF A NEW AGREEMENT FOR SENSITIVE ITEMS WOULD APPEAR ESSENTIAL.
SHELTON

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Message Attributes

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Draft Date: 28 FEB 1975
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Decaption Note:
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Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
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Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
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Document Unique ID: 00
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Executive Order: N/A
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Handling Restrictions: n/a
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Legacy Key: link1975/newtext/t1975023/aaaaaciq.tel
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